

MUNI MARKET UPDATE

March 15, 2010

INSIDE THIS ISSUE:

Diamonds in the Rough	1
Where the Stimulus Money is Going	1
Municipal Market Update	2
Visible Supply	2
Economic Calendar	2
This Week's Calendar	4

ABOUT ROCKFLEET

Rockfleet Financial Services, Inc., a financial services firm, serves clients nationally through its brokerage and investment banking businesses.

The company's brokerage division offers fixed income products and services specifically designed to address the needs of institutions and high net worth and affluent individuals.

The company's investment bank division provides fixed income securities products, advisory services, and market commentary.

Click [here](#) for biographies.

DIAMONDS IN THE ROUGH

By [Larry Levitz](#)

The recent upswing in municipal bond defaults is almost entirely attributable to land-secured bonds; victims of the housing crisis.

According to Richard Lehmann, who publishes the Florida Community Development District Report at floridacddreport.com, a website that tracks defaulted community development districts in Florida, land-secured bond defaults have totaled \$3.9 billion since December 2008. Over 98% of those defaults occurred in Florida.

Despite the bad news, the credit quality of these bonds can vary widely between regions, states, and even neighborhoods, such that investors willing to put in the research may find some diamonds in the

rough.

Land-Secured Bonds 101

Land-secured bonds were created to finance infrastructure improvements for residential or commercial developments.

According to the Bond Buyer, over \$24 billion of Development Bonds, which also include tax-increment bonds, were issued in the U.S. from the beginning of 2007 to the present. Bond proceeds are used to construct roads, utility lines, clubhouses, landscaping, etc. With local governments constrained or reluctant to issue their own debt to fund individual subdivisions, land-secured bonds represent bond financing at the most local or neighborhood level. Debt repayment relies solely on the property owners who

directly benefit from the financed project.

While many states allow for the issuance of land-secured bonds (including Colorado, Illinois, Maryland and Virginia), most are issued in California, Florida, and Texas. Generally, a developer starting out will form a development district with the authority to issue tax-exempt infrastructure bonds. The bonds can be secured by either a special tax or a special assessment levied on property within the district. Community facilities districts in California, also called [Mello-Roos](#) districts, levy special taxes annually on district property that can be adjusted from year to year, depending on collection rates, project costs, etc. While California law places limits on the maximum special tax rate that can be levied, Texas

[\(continued on page 3\)](#)

WHERE THE STIMULUS MONEY IS GOING

How much stimulus money is going to your state or county? [Pro Publica Inc.](#) has taken all the data used on the government's stimulus Web site, [Recovery.gov](#), cleaned out the cobwebs and added thousands of

records the feds didn't include — the law doesn't require all recipients to report to Recovery.gov — to create the most comprehensive publicly available analysis of stimulus spending that we know of.

On its web site, you can type in a county or click on a state to find local projects, and check out how per capita spending compares with poverty, income and unemployment in a given area area.

[\(continued on page 2\)](#)

WHERE THE STIMULUS MONEY IS GOING (CONT'D)

Most Per Capital

The District of Columbia is in the lead, having received \$5,780 per capita¹, more than double the amount of the next state, and 5.6 times the amount of the U.S. average. The District's unemployment rate was 12.1%.² With approximately 40,300³ unemployed people in the District, that's \$84,888 per unemployed person.

Alaska, with an unemployment rate of 8.8%, has received \$2,712 per capita .

Coming in third and fourth are Idaho and North Dakota, having

received \$1,684 and \$1,679 per capita, respectively. Idaho's unemployment rate was 9.1%, while North Dakota's was significantly lower at 4.4%.

Least Per Capita

Virginia, with 6.9% unemployment, received the least stimulus dollars per capita, at \$717.

Wisconsin and Texas, with unemployment rates of 8.7% and 8.3%, are second and third lowest per capita. Wisconsin has received \$725 per capita, while Texas has received \$772 per capita.

Florida, with an unem-

ployment rate of 11.8%, approaching that of the District of Columbia's, has received \$832 per capita, or 14.4% of what the District has received.

Most Per Unemployed Persons

As noted above, the District of Columbia leads, with \$84,888 received to date per unemployed person.

After the District, there is a large drop. North Dakota, Alaska, South Dakota, and Montana follow, having received \$69,919, \$60,036, \$59,332, and \$46,505, respectively, per unemployed person in those states.

After these top five states, the amounts begin to level off.

[\(continued on page 4\)](#)

¹ Stimulus dollars per capita statistics are as of March 2010. Source: Pro Publica Inc. <http://projects.propublica.org/recovery>

² Unemployment rates are as of December 2010. Source: Pro Publica Inc. <http://projects.propublica.org/recovery>

³ Source: U.S. Department of Labor, Bureau of Labor Statistics. January 2010.



MUNICIPAL MARKET UPDATE

The municipal bond market has performed well in recent weeks, despite ongoing headline risk and credit concerns.

Geographic diversification and investing in high quality essential service revenue bonds are important strategies to consider in this environment. At the same time, investors willing to do their homework can find higher yielding, lower rated investments to aug-

ment their returns.

Tight tax exempt supply (nearly 40% of 2010 issuance has been Build America Bonds), solid bond fund flows, a steep yield curve, and large low yielding balances in money market funds have been factors in 2010 performance.

Cash exiting money market funds has been redeployed into high grade limited-term municipal

funds, given the risk averse nature of these investments.

Secondary market flows remain muted as investor focus largely remains concentrated in the new issue market, though interest is certainly growing in the 25- 30 year range.

The last word was that there were approximately \$5.5B in orders for the \$2.5B California GO transaction.

VISIBLE SUPPLY

The 30-day visible supply of municipal bonds totaled \$8.18 billion, down \$105.0 million from the previous session, according to the Bond Buyer.

That comprises \$1.754 billion of competitive bonds, which is up \$6.0 million and \$6.425 billion of negotiated bonds, which is down \$111.0 million.

Week of March 8, 2010

Total supply: \$9.5B

Taxable/BABs: \$2.2B

Tax-Exempt: \$7.29B

Week of March 15, 2010

Total supply: \$5.9B

Taxable/BABs: \$1.91B

Tax-Exempt: \$4.0B

The 30-day visible supply is calculated by The Bond Buyer and reflects the total dollar volume of bonds to be offered at competitive bidding and through negotiation over the next 30 days.

Source: Thomson Reuters. 3/12/10.

ECONOMIC CALENDAR

Sun	Mon	Tue	March 2010	Wed	Thu	Fri	Sat
			1	2	3	4	5
6	7	8	9	10	11	12	13
14	15	16	17	18	19	20	21
22	23	24	25	26	27	28	29
30	31						

DIAMONDS IN THE ROUGH (CONT'D)

municipal utility districts have the legal right to levy taxes without restriction in order to pay debt service.

Special assessment bonds are utilized by Florida community development districts (CDD) and California Act 1915 Bonds. Unlike special taxes whose rate is tied to the value of property, the assessment is a fixed amount based on a pre-determined allocation of the benefits of the project. Both special taxes and assessments are levied on the owner's tax bill with a lien on property equal to that of property taxes and superior to mortgage and other liens. A property owner's failure to pay the special assessment or special tax can trigger foreclosure proceedings against the property.

Credit Factors

There are several major credit factors that investors should consider:

1. Level of Development.

Districts in the early stage of development when property ownership and taxes are concentrated with a few developers are at much greater risk of default than highly developed and occupied districts. In Florida, \$3.9 billion of CDD bonds are in default and most of those have occurred with districts created within the last five years that remained relatively undeveloped. As infrastructure is completed and homes are sold, property values

increase providing a stable tax base to support debt.

Florida CDD bonds come in two varieties: Series A and Series B bonds, both of which are secured by special assessments as discussed above. However, the developer intends to pay the Series B bonds solely from home sales in the district as a way of lowering assessment costs for district taxpayers. Series B Bonds constitute about 35% of the CDD bond market and are the first to default when home sales drop below initial projections as they have in Florida. Investors should focus on Series A bonds and only on districts which are substantially, ideally at least 90%, built and occupied.

2. Land-to-Lien Ratios.

The value of property in the district based on either assessed valuations or an appraisal relative to the direct debt of the district (plus a proportional share of tax-supported bonds of overlapping governmental jurisdictions) should be at least 5 to 1. Overlapping jurisdictions include city, county, school districts, and other debt issuing entities. Higher valuations relative to debt indicate stability and provide strong incentives to meet all tax obligations.

3. Obligation of Tax Collecting Jurisdiction to Foreclose. There should be a covenant by the

district tax collector to foreclose on the property of delinquent district taxpayers.

4. Cash-Funded Reserve Fund.

This should be equal to the legal maximum amount, usually maximum annual debt service.

The Four Cs and Beyond

A good example of an investment-worthy land-secured bond is Colonial Country Club CDD in Florida, located within West Palm Beach. It issued bonds in 2003 to finance infrastructure development.

- Completely built-out and occupied with land to lien ratios over 10X
- Collections — excellent tax collection history
- Combination of taxpayers — Little dependence on any one taxpayer
- Cash-funded reserve fund.

It received an A+ rating from S&P in 2007. Districts with these characteristics may be suitable for certain retail investors.

Finding the Diamonds

To begin your search for creditworthy land-secured bonds, it is best to contact a broker who specializes in municipal bonds, such as Rockfleet Financial Services. We can provide you with suggested offerings, an official statement and, in some cases, updated information.

Or if you are interested in a particular bond issue, you can determine the underwriter through EMMA and contact it directly. In either case, you should do your own research to fill in any knowledge gaps or verify the information you have been given.

With adversity comes opportunity. Problems in the land-secured bond sector have created bargains for those willing to find them.

Resources for Meaningful Due Diligence

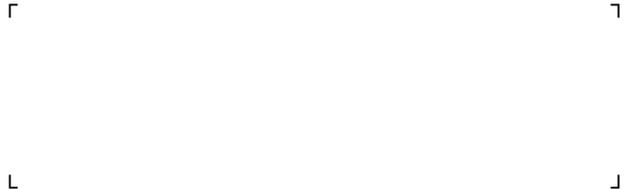
EMMA. Meaningful due diligence should include a close reading of the offering documents. The Municipal Securities Rule Making Board runs the Electronic Municipal Market Access (EMMA) website at emma.msrb.org, which provides free access to bond issuer material events, such as a draw on the reserve funds, and updated disclosure information which they are required to file periodically.

RealtyTrac. District foreclosure activity can be reviewed on realitytrac.com or similar website.

District's Website. It would be worthwhile to check district tax collection history and financial status either through the district's website, contacting the district manager, or other available information sources.

Site Visit. Visit the district, if possible.

515 Madison Avenue, 27th Floor
 New York, NY 10022
 Phone: 212-888-1301
 Fax: 212-572-9814
 Email: sales@rockfleetfinancial.com
www.rockfleetfinancial.com



WHERE THE STIMULUS MONEY IS GOING (CONT'D)

Least Per Unemployed Persons

Some of the states hardest hit by the housing crisis, and with the most exposure to land-secured bonds (see "[Diamonds in the Rough](#)") in this issue have received the least funding per unemployed person.

\$13,863, \$15,566, \$16,015, and \$16,246 respectively, per unemployed person.

Georgia and Michigan have also received less than \$17,000 per unemployed person, at \$16,757 and \$16,865, respectively.

Nevada, Florida, Wisconsin, California, and Ohio have received \$13,041,



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Where the Stimulus Money is Going

State	Amount	Per Unemployed Person
Alabama	1,000,000,000	13,041
Alaska	100,000,000	13,041
Arizona	1,000,000,000	13,041
Arkansas	1,000,000,000	13,041
California	1,000,000,000	13,041
Colorado	1,000,000,000	13,041
Connecticut	1,000,000,000	13,041
Delaware	1,000,000,000	13,041
District of Columbia	1,000,000,000	13,041
Florida	1,000,000,000	13,041
Georgia	1,000,000,000	16,865
Hawaii	1,000,000,000	13,041
Idaho	1,000,000,000	13,041
Illinois	1,000,000,000	13,041
Indiana	1,000,000,000	13,041
Iowa	1,000,000,000	13,041
Kansas	1,000,000,000	13,041
Kentucky	1,000,000,000	13,041
Louisiana	1,000,000,000	13,041
Maine	1,000,000,000	13,041
Maryland	1,000,000,000	13,041
Massachusetts	1,000,000,000	13,041
Michigan	1,000,000,000	16,757
Minnesota	1,000,000,000	13,041
Mississippi	1,000,000,000	13,041
Missouri	1,000,000,000	13,041
Montana	1,000,000,000	13,041
Nebraska	1,000,000,000	13,041
Nevada	1,000,000,000	13,041
New Hampshire	1,000,000,000	13,041
New Jersey	1,000,000,000	13,041
New Mexico	1,000,000,000	13,041
New York	1,000,000,000	13,041
North Carolina	1,000,000,000	13,041
North Dakota	1,000,000,000	13,041
Ohio	1,000,000,000	13,041
Oklahoma	1,000,000,000	13,041
Oregon	1,000,000,000	13,041
Pennsylvania	1,000,000,000	13,041
Rhode Island	1,000,000,000	13,041
South Carolina	1,000,000,000	13,041
South Dakota	1,000,000,000	13,041
Tennessee	1,000,000,000	13,041
Texas	1,000,000,000	13,041
Utah	1,000,000,000	13,041
Vermont	1,000,000,000	13,041
Virginia	1,000,000,000	13,041
Washington	1,000,000,000	13,041
West Virginia	1,000,000,000	13,041
Wisconsin	1,000,000,000	13,041
Wyoming	1,000,000,000	13,041

THIS WEEK'S CALENDAR

Date	Amount	Issuer
03/15/10	12,215M	East Stroudsburg ASD, PA
03/15/10	8,375M	Penndridge ASD, PA
03/16/10	7,510M	Hoosick-Falls CSD, NY
03/16/10	7,320M	Bellwood-Antis SD, PA
03/16/10	7,975M	Manchester Twp, PA
03/17/10	2,400M	Brick Twp BOE, NJ
03/17/10	5,770M	Odessa-Montour CSD, NY
03/17/10	2,052M	Wheelerville UFSD, NY
03/17/10	143,625M	State of Wisconsin - Series A
03/17/10	179,105M	State of Wisconsin - Series B - TxbI BABs
03/17/10	3,123M	East Aurora Village, NY
03/18/10	153,465M	Boston, MA
	\$34,065M	- Series A
	\$66,075M	- Series B
	\$36,400M	- Series C - TxbI BABs
	\$16,925M	- Series D - TxbI
03/18/10	3,181M	Kendall CSD, NY
03/18/10	10,785M	Town of York, NY

Click [here](#) for calendar updates.